

**REPORT TO THE
TWENTY-FOURTH STATE LEGISLATURE
REGULAR SESSION 2005**

ON

**PROGRESS OF DOBOR IN ADDRESSING THE AUDITOR'S CONCERN IN
THE 1998 AND 2001 AUDIT OF THE MANAGEMENT OF STATE
BOATING FACILITIES**

This report is submitted in response to Senate Concurrent Resolution (SCR) No. 168 Senate Draft (SD) 1, Regular Session of 2004, REQUESTING THE BOARD OF LAND AND NATURAL RESOURCES REPORT TO THE LEGISLATURE ON THE PROGRESS OF DOBOR IN ADDRESSING THE AUDITOR'S CONCERN IN THE 1998 & 2001 AUDITS OF THE MANAGEMENT OF STATE BOATING FACILITIES.

I. BACKGROUND

The Legislative Auditor performed audits of the Division of Boating and Ocean Recreation in 1998 and 2001. Both of the audits were designed to assess the division's ability to effectively manage the small boat harbors and boat ramps of the State of Hawaii. Additionally, the 1998 audit assessed the adequacy of the department's financial accounting system and the 2001 audit examined the feasibility of transferring the division from the Department of Land and Natural Resources (DLNR) to the Department of Transportation. Their findings from the audits and the division's response are shown below.

II. STATUS of REPORT NO. 01-09 April 2001

1. Audit Finding:

The Division of Boating and Ocean Recreation (DOBOR), under the management of the Board of Land and Natural Resources, needs to develop a realistic strategic plan to address short and long term problems of the State's boating facilities and address the program's insufficient revenue stream. Emphasis should not be placed solely on user fees for the boating facilities. Instead, the division needs to identify and rigorously pursue additional measures to maximize the boating program's funding and revenues. Specifically;

- Immediately, the boating division should seek and secure general fund appropriations from the Legislature to address its

most pressing repair and maintenance projects. Support from the general fund would reflect the much larger population who benefit from the program than just the users of boating facilities; and

- Long range plans of the division should include the possibility of increasing commercial activity in small boat harbors, allowing commercial activity in boating facilities where it is currently prohibited, and allowing land-side commercial activity in small boat harbors that is not necessarily maritime-related.

Response

The division, with input from district staff, harbor agents, and constituents, developed a prioritized list of capital improvement projects (CIP) by district. These projects are an important step to ensuring the harbors users health and safety.

In fiscal year 2004, the division sought reimbursable and non-reimbursable general obligation (GO) bond funding for the projects. However, the Legislature provided DOBOR with \$10 million in revenue bond funding. DOBOR, with the assistance of the Department of Budget and Finance, worked with bond underwriters and determined that this is not a feasible method to fund CIP. Based on the existing fee structure, the division would not be able to float sufficient amounts of revenue bonds to obtain the necessary capital.

Additionally, in 2004, legislators provided \$1.2 million in non-reimbursable GO bond funding for repairs to piers at the Waianae Small Boat Harbor, Oahu; and piers and electrical system at the Maalaea, Small Boat Harbor Maui. DOBOR obtained \$7.5 million in Federal monies for ferry pier improvements and other amenities at Kaunakakai, Molokai; Manele, Lanai; and Maalaea, Small Boat Harbors Maui; and \$3.58 million for light draft navigation and land-side improvements at the Kahului, Boat Ramp Maui.

DOBOR has sought to expand its revenue sources by aggressively pursuing federal grants and reimbursements. It has obtained over \$1 million in federal reimbursements from the Boating Safety Act. This was used for law enforcement, boating safety education, vessel registration, navigational aids, and administrative costs.

2. Audit Finding:

The boating division, under the general direction of the Land Board, should address the deficiencies in the State's boating facilities. The following items should be addressed specifically:

- Identify the repair and maintenance needs of the boating facilities and aggressively pursue necessary funding within the land department and at the Legislature;
- Review the boating division's enforcement arrangement with the Division of Conservation and Resources Enforcement (DOCARE) to ensure that the boating program receives its fair share of enforcement and;
- Ensure that all persons moored in state boat facilities possess current mooring permits, vessel inspections, and vessel registrations.

Response:

The division has developed a list of projects by harbor and district and plans to implement the repairs when the division increases its rates.

DOBOR has met with DOCARE and DLNR administration and has requested that DOCARE submit inspection logs to DOBOR. DLNR administration concurred and directed DOCARE to submit such logs to DOBOR. These logs will document the activities of DOCARE in DOBOR areas and address the audit finding. DOBOR looks forward to reviewing the logs in fiscal year 2006.

DOBOR has continued to pay DOCARE \$1.2 million annually as directed and an additional \$100,000 for cruise ship security in FY 2004. With the implementation of increased Federal security standards, DOBOR is projecting an additional \$300,000 in cruise ship security costs.

The division conducts random surprise audits at its facilities. The division's auditor conducted five audits in fiscal year 2004 to ensure

that all persons moored in the state's facilities possess current mooring permits, vessel inspections, and vessel registrations. The results of the audits were reported to the administrator and district manager(s). The Auditor's position was vacant for six months during the fiscal year as the incumbent was temporarily assigned as the Boating Staff officer. The division plans to continue the audits to ensure fiscal integrity.

3. Audit Finding:

The boating division needs to improve its controls over its financial activities by;

- Ensuring that expenditures are properly classified to an appropriate cost center;
- Establishing a better inventory system to account for physical property to ensure that the division is in possession of such property;
- Better segregation of duties for cash collections at boating facilities;
- Better identifying and collecting delinquent accounts to reduce the amount of outstanding receivables owed to the division; and,
- Requiring more audits of its commercial permit holders to ensure the integrity of their financial receipts.

Response:

The division allocates indirect costs to cost centers on its internal financial statements. DOBOR has also established cost centers to track revenues and expenditures for Waikiki, Oahu-South Shore, and Kauai North Shore ocean recreation management areas. These are areas that generate revenue from commercial operations.

DOBOR updates its inventory audits every quarter and performs an audit of its inventory annually.

The segregation of duties for cash collection remains difficult for DOBOR to do. There are several facilities whose revenue base supports only a harbor agent. It would not be cost effective to establish a second position. However, the division has instituted random harbor audits to address cash collection at its facilities. The division conducted five harbor audits during fiscal year and plans to continue this practice.

DOBOR produces an aged receivable report of its accounts on a monthly basis. Accounts delinquent over 30 days are sent reminder notices that their account is past due. At 60 days, accounts are sent default letters, and at 90 days termination letters are sent.

DOBOR completed four audits of commercial accounts during the fiscal year. During the fiscal year the Auditor's position was vacant for six months as the incumbent was temporarily assigned as the Boating Staff officer.

4. Audit Finding/Comment

Consideration of a transfer of the boating program to another agency should be deferred until the program's more immediate problems are effectively addressed.

III. STATUS of REPORT NO. 98-11 March 1998

1. Audit Finding:

The Board of Land and Natural Resources and its director should establish a comprehensive statewide boating program. To ensure the efficient and effective administration and operation of state run small boat harbors and boat ramps, the board and its director should:

- Establish a strategic plan addressing the overall goals, objectives and measures of effectiveness for the boating program;
- Establish statewide standards for the minimum services to be provided at each of the boating facilities; and

- Develop a multi-year program and financial plan addressing the need for repairs at the boating facilities.

Response:

The division has developed a comprehensive CIP program that is designed to address the needs of the harbor and ramp facilities statewide. It has also developed a multi-year CIP program and financial plan that will provide for one CIP project at each harbor over the next two fiscal years. The CIP will be funded through a rate fee increase proposed in fiscal year 2005. Sufficient funds will also be raised to fund over \$1 million in repairs and maintenance at harbor facilities.

2. Audit Finding:

The Board of Land and Natural Resources, in conjunction with the Division of Boating and Ocean Recreation, should establish adequate management and financial controls to ensure the safe and efficient operation of state run small boat harbors and boat ramps. These controls should at a minimum include:

- A policies and procedures manual that establishes minimum standards for boating facilities, clear and concise administrative rules, and clear procedures issuing permits and conducting vessel inspections.
- A financial accounting system able to track expenditures by facility, account for all moneys owed to the division, and provide timely and useful expenditure information to the Legislature, the division, harbor staff, and the general public.

Response:

The Division has proposed and drafted changes to the Hawaii Administrative Rules (HAR) and has gotten approval from the BLNR to conduct public hearings for their implementation in calendar year 2005.

The division continues to use the Financial Accounting Management Information System (FAMIS) that is maintained by the Department of Accounting and General Services (DAGS) and is used by all of DLNR. DOBOR downloads expenditure information from FAMIS and develops financial statements that report expenditures by cost center. These are prepared on a monthly basis. These have been presented to constituents, legislators, and harbor staff. DOBOR does an indirect cost allocation for statewide administrative expenses to obtain a true cost of operations for its facilities.

DOBOR prepares an annual budget based on expected revenues and expenditures. Actual revenues and expenditures are compared to budgeted amounts on a monthly basis. This is used as a management tool by district managers and statewide administration to ensure that funds are spent in an appropriate and planned manner. This also allows the division to plan its cash flow to meet its most urgent needs.

3. Audit Finding/Comment

The Board of Land and Natural Resources should delay the implementation of alternative forms of management until it has established a comprehensive statewide program, formulated clear policies regarding those practices, established sound contract management controls, and adequately trained staff to monitor and evaluate contract performance.